

REPORT

OF THE MINISTER OF FINANCE, FOR 1868.

DEPARTMENT OF FINANCE,
April 18th, 1868.

By command of His Majesty, the King, the following Financial Budget, required by the Constitution, is respectfully presented to the Legislative Assembly in the name of this Government.

It contains classified statements of financial transactions by Government during the last fiscal period, the present condition of the Treasury, and the estimated wants and resources of the Kingdom for the next two years.

I.—RECEIPTS.

The amounts received by the Treasury during the two years ending with March 31st, 1868, have been—

From Foreign Imports.....	\$972,641 00
From Fines, Penalties and Costs.....	39,538 44
From Internal Commerce.....	82,262 46
From Internal Taxes.....	165,400 56
From Fees and Perquisites.....	25,549 32
From Government Realizations.....	126,907 14
From Miscellaneous Receipts.....	18,850 06

Total receipts from all sources, as per table (A).....\$831,448 98

II.—EXPENDITURES.

The expenditures during the two years, ending with March 31st, 1868, (arranged under the several heads specified in the last Appropriation Act) have been as follows:

Civil List.....	\$ 40,000 00
Permanent Settlements.....	20,000 00
Department of the Interior.....	348,791 50
Foreign Affairs.....	32,540 35
Finance.....	141,890 94
War.....	58,502 28
Public Instruction.....	40,889 00
Law.....	60,856 98
Miscellaneous Expenditures.....	70,696 50

Total Expenditures as per table (B).....\$834,167 55

III.—STATE OF THE TREASURY.

By comparing the above statements, it will be seen that during the last two years, the expenditures have exceeded the receipts in the sum of \$3,018 57, and on the 1st day of April, in the present year, the actual cash balance in the Treasury, represented by gold and silver, amounted to \$163,567 84, which is believed to be the largest amount ever held in specie at the close of any fiscal period. This condition of the Treasury is most satisfactory, especially as the public debt has been greatly reduced.

IV.—PUBLIC DEBT.

According to table (C) hereto appended, the public debt on March 31st, 1868, consisted of

Funded Debt.....	\$ 98,950 00
School Fund.....	20,923 38
Deposits.....	379 35
Salaries due and unpaid.....	562 50

Total.....\$120,815 23

Of the Funded Debt, there will fall due within the next two years.....\$ 7,050 00
which amount will easily be paid from the ordinary revenue, and the amount of unpaid salaries, viz.....562 50
will be paid on demand, probably, in a few weeks.
These two items amount to.....7,612 50

Which leave the public debt, including the school fund, \$113,202 73

But the School Fund is hardly to be included in the Public Debt. It consists of the proceeds of property originally held for the benefit and use of schools, which have been paid into the treasury from time to time. An amount equivalent to the interest upon this sum is faithfully and regularly appropriated by Government, for educational purposes. Such an appropriation is like a perpetual annuity, to be included in the ordinary expenditures of Government. But the principal is not likely to be called for. No safer investment can be found, and the Government, in justice to the cause of Education, will always appropriate an amount equal to the highest rate of interest safely to be obtained. If the amount of the School Fund is deducted, viz: \$20,923 38, the public debt, remaining to be carried, will be \$92,279 35, not much more than half the actual cash balance in the Treasury.

It is notorious that the outstanding Government Bonds are wholly withdrawn from the market, although capitalists have offered high premiums; and are ready to take more at any time. The credit of the Government stands very high, and affords the strongest evidence of unlimited public confidence in its independence, perpetuity and strength.

V.—ESTIMATED EXPENDITURES.

A detailed statement of estimated expenditures for the next two years appears in table (E) hereto appended. Its aggregate amount somewhat exceeds what was granted by the last Legislative Assembly. The proportions are different, and the classification of items is somewhat changed. Appropriations belonging to the Bureau of Public Instruction have been transferred from the Departments of the Interior and Finance. As it is proposed to change the care and supervision of the Police and Executive Officers of the law from the Department of the Interior to that of the Attorney General, the appropriations are arranged accordingly. Some new items are assigned to the Judiciary Department, and those styled Miscellaneous have been appropriately distributed. Other slight changes, of obvious propriety, have been made.

His Majesty's Government have incurred two expenditures during the past year, for which they have directed the Minister of Finance to ask indemnity.

The necessity of frequent and reliable inter-island steam navigation is almost self-evident. Such a result has been secured for some time by private enterprise, but not without interruption and repeated changes of proprietors. Its unprofitableness, without aid from Government, has been fully demonstrated. The steamer *Kilauea*, and the charter of inter-island navigation, are now held by an incorporated company. Their vested monopoly is not yet forfeited. A crisis, however, occurred recently in the Company's affairs, and nothing but the aid of the Government could have prevented a suspension of navigation, and even the sale of the steamer. Under these circumstances, the government concluded to recommend an annual subsidy of \$8,000 for the term of one year, and to advance the sum of \$6,000, to be repaid, by withholding a portion of each monthly instalment. At the same time a surrender was insisted upon, of all the monopolies and exclusive privileges of the company, to take effect in case the Legislative Assembly approves the action of the Cabinet. Meanwhile, the amount advanced is secured by a mortgage and policy of insurance upon the vessel. This negotiation has been arranged in the Department of the Interior, whose Minister will present a bill to carry it into effect. The Finance Department seek indemnity for the amount advanced.

The case of Her Majesty, Queen Dowager Kalama, the relict of His late Majesty, King Kamehameha III., has been pressed upon the Cabinet as worthy of a permanent settlement. After careful consideration, it has been decided to recommend an annuity of \$2000 00 for each remaining year of Her Majesty's life, to enable her suitably to maintain the dignity of her exalted station. A proportionate sum (\$2,500 00) has been paid since January 1, 1867, for which indemnity is asked.

A request for a subsidy has been made in behalf of the proprietors of the line of ocean steamers, plying between Honolulu and San Francisco, and which now receives a subsidy from the United States of America. This subject deserves careful consideration by the Legislative Assembly, and is favorably regarded by the Government. But the propriety of fixing some conditions as to rates of postage, freight and transportation of passengers will be generally conceded. At all events, the Government should demand two steamers and regular days of departure, not separated by intervals of more than twenty days. The limited revenues of this Kingdom will not warrant a perpetual subsidy, but a liberal bounty might be paid by instalments during a period not longer than two years in order to secure the permanent establishment of the line. Such a payment should not be regarded as a current expenditure, but

rather as a permanent outlay, from which advantages might be anticipated for years to come. By an issue of bonds, the expenditure might be averaged upon each of the next forty years, without seriously disturbing the ordinary revenue.

VI.—SOURCES OF REVENUE.

The condition of the Treasury is so satisfactory that, were not the existing sources of revenue liable to great reduction, the payment of a large subsidy to ocean steamers would occasion little inconvenience. Current and extraordinary expenses could be met without resort to any new modes of taxation, and the public debt ultimately paid. But should the Treaty of Reciprocity, already ratified by His Majesty, receive the sanction of the Executive and Congress of the United States, the provisional legislation of the special session of the Legislative Assembly will immediately acquire the force of law, and the revenue from customs will be much reduced. The amount of this probable loss of income is wholly conjectural, but the returns from the sources provided by recent legislation can be calculated with more precision. The Government cannot present any estimates more reliable than those submitted to the Legislature at its extraordinary session. By these estimates, a loss of revenue was estimated from the operation of the Reciprocity Treaty of \$63,265 44, of which provision has been made for about \$52,000 00. But if extraordinary encouragement to the sugar culture, and the innumerable interests connected with it, occasions general and sudden prosperity, new expenses are inevitable in all departments of government, and considerable additional revenue will be immediately required. Even if the course of trade does not change at once it will constantly seek, in increasing proportions, the markets of that nation which confers the greatest commercial advantages. Meanwhile, the inflated prices caused by the rebellion in the United States are giving way, and the natural laws of trade are resuming their sway; and the influence of the treaty will slowly but steadily reduce the gross annual income from the customs. Upon the whole, the Government advise that this matter should be so adjusted that revision will not be required for a series of years, and therefore recommend that the amount of \$30,000 00 should be raised each year, (if the Reciprocity Treaty becomes operative) in addition to that already provided for.

But how shall this be accomplished? Four modes have been suggested.

1. An increase of the direct tax on real and personal property.
2. An increase of duties upon imported articles not included in the Reciprocity Treaty.
3. A system of excise and stamp duties, and increased fees for licenses.
4. A tax upon incomes, gains and profits.

1st. In regard to the increase of the direct tax upon real and personal property, it will be admitted, that although such taxation is, theoretically, very fair and just, yet there are practical difficulties about assessing and collecting such taxes, and when the per centage reaches a high rate, the temptation to fraud increases, and there is much difficulty in detecting it.

2d. The system of customs duties cannot well be changed without violating positive treaty stipulations, or the obligations of good faith to foreign nations. Such complications should be carefully avoided, and it is unwise to attempt any further increase of duties upon imports until all other sources of revenue have been exhausted.

3d. A system of excise duties would require a new organization of the internal revenue department, and involves many difficulties. Those articles which are not to be admitted into the United States free of duty; would hardly bear such a tax, and it would be almost a breach of faith with the United States, and certainly contrary to the spirit of the treaty, (which was designed to reduce the cost of our products to their consumers) to impose duties at this side upon articles, which their government relieves from duty at the other. In regard to stamps, it is thought by many, that the amount obtainable from that source would hardly repay the inconvenience which it would occasion in business. Stamp acts can only be enforced by declaring all instruments invalid which are not stamped, and the population of these islands is hardly trained to the precise habits of business which will bear the enforcement of such severe rules. The strict enforcement of the present stamp act is attended with great difficulty and occasions complaint. But it seems to the government that an increase of some license fees would be most equitable, and that the present would be a good time to revise the whole license system. Large wholesale dealers, who are soon to derive material advantage from the reduction of duties upon imports, ought to contribute a little more to the expenses of government, and wholesale dealers, only in name, should be relieved from inordinate burdens.

4th. An Income Tax to be assessed upon the annual incomes, gains and profits of each individual with an absolute exemption of a fixed sum in every case, is most equitable in its nature. All civilized nations are coming to recognize its fairness. Elaborate returns, to which the citizens of this Kingdom are not yet accustomed, will become necessary, and may prove irritating to those who desire to avoid publicity of their affairs. But such difficulties must yield to the intrinsic justice of the measure. The probable amount of revenue to be obtained in this way is quite uncertain, but it is hoped that a tax of two and one-half per centum upon the excess of every income above \$1,000 00 would make good a large part of the apprehended deficiency.

As a result of the whole matter, the Government recommend that the anticipated loss of revenue be made up by an increase of license fees to wholesale dealers, proportioned according to actual sales, and a tax of two and a half per centum upon the excess over \$1,000 00 of the incomes, gains and profits annually received by each individual. A bill embodying these views will be submitted.

The increase of direct taxes upon real and personal property already provided for, will require increased vigilance and system in the assessment of taxes. The matter has received the attention of the government, and will be the subject of a special bill.

VII.—THE CURRENCY.

The currency of this Kingdom is exclusively metallic, and the coinage of the United States predominates. No other circulating medium is required. Some inconvenience is experienced from the disproportionate amount of silver in circulation, and the delay and trouble of frequently counting out large amounts. But the evil will soon cure itself; and, meanwhile, the principal banker of Honolulu has deposited a large amount of silver coin in the Treasury under the provisions of an existing law. For this amount, payable on demand, without interest, receipts have been given of various denominations, which being indorsed by the depositor, pass current as money, and are very convenient in payment of large amounts at the Custom House and elsewhere. They represent bullion in the Government vaults, which can be applied to no other use by either party. If silver coin becomes scarce, this deposit can be withdrawn on production of the receipts, and the equilibrium will be restored.

For some time past, orders have been enforced at the Treasury for the detention of all mutilated silver coins and the smaller coins of Spain and Peru which are intrinsically worth less than their current value. A considerable amount has accumulated, and authority will be asked from the Legislature to send the whole to the San Francisco Mint for recoinage, the loss being charged off as a current expense of Government. Meanwhile, to secure the Treasury from imposition, precautions should be taken to prevent the importation of depreciated silver from abroad, and an order will probably be issued to reduce the value at which such coins will be received at the Treasury. Thus, it is hoped, the currency will become thoroughly purged.

It is not beneath the dignity of any government to protect the rights of its poorest subjects by the issue of small coins. Efforts continue to be made to force the American dimes and half dimes into general circulation, and in spite of some opposition.

* Note.—The depreciated and mutilated coin will amount to about \$1,700 00, upon which the loss not will probably exceed 25 per cent or \$425 00.

sition, the success of the movement is made certain. In the opinion of many, the introduction of small copper or mixed coins would be advantageous.

VIII.—EXPENDITURES IN THE DEPARTMENT OF THE INTERIOR.

Many of the current expenditures of this Kingdom are under the supervision of the Minister of the Interior, and it is impossible to form any satisfactory opinion of the appropriation required without some statement from that department. The following memoranda, furnished by the Minister, disclose what has been accomplished, and also indicate with reasonable certainty what will be required:

PUBLIC WORKS.

Government Warehouse.—Since the passing of the last Appropriation Bill, a Government Warehouse has been erected, on a most convenient site, adjoining the Custom House. The iron doors and shutters of the latter building have been repaired, and the whole external part of the building has been white-washed and painted. Cost of the whole has amounted to \$20,121.84.

Dredging Harbor.—The Dredging Machine, in September of 1866, was put in complete repair, and beginning in October, was kept constantly at work for a period of eight months. The result has been a deepening of the Harbor at the new Steamboat Wharf and at the Wharves in front of the Custom House, so that vessels of the largest draught can now come alongside with perfect safety. Of the \$15,000 appropriated for this work, there have been expended the sum of \$12,231.68.

Wharves and Buoy.—At the time the steamers of the Pacific Mail Steamship Company, running between San Francisco and Japan, were expected to make this a port of call, a contract was entered into between this Government and that Company, to erect a wharf suitable to their wants; in consequence, one has been built at an expense of \$15,370.50, capable of accommodating the largest sea going steamers, and although it has not been required for its original purpose, it is found to be a most valuable addition to our wharf facilities; the wharves have been repaired in many places, as also the sea walls all around the Harbor.

Owing to the unexpected charge of the new wharf which more than exceeded the whole of this appropriation, the charges for buoys were transferred to the next item. There has been expended on this appropriation \$22,204.44.

Anchors and Buoy.—In the Harbor of Honolulu, a large iron buoy with heavy chain and anchor has been laid down outside the reef, to mark the anchorage ground. The buoys which mark the deep water channel have all been taken up and repaired, two of them being entirely new. A new spar buoy has been placed at the entrance of the channel; and a buoy with heavy chain and anchor has been laid down near the new wharf, to facilitate the swinging of steamers preparatory to starting. Six large anchors have been laid down on the inner edge of the reef, for stern moorings when the Harbor is crowded, and a number of piles have been driven to mark the shoal water inside of the reef. Moorings have been laid down at and prepared for fifteen of the principal outports, iron buoys having been generally used for this purpose, which, if properly cared for, will be found very durable. Twelve anchors of various sizes and 360 fathoms of chain ordered from England, have not arrived, so soon as expected, but they will be available, in the course of a few months, for some of the outports which have not yet been supplied, but where such moorings are highly desirable. The whole amount expended from this appropriation is \$8,297.74, but from this amount must be deducted the sum of \$1,860 sent to England for the purchase of the above mentioned chains and anchors.

Loading at Hamakua, Hawaii.—A good road was built down to some large rocks overhanging the still water, and on these rocks, at a height of 20 feet above high water mark, a large platform and derrick were placed, but unfortunately during an unusually heavy swell from the northward in November last, they were swept off by the sea. The road, however, remains in a serviceable condition, and is a great benefit to the District; it is believed that a permanent platform may be built there, notwithstanding the loss of the first one.

Harbor of Honolulu.—The appropriation for this purpose has been found altogether inadequate to the requirements of the work. A good road has been made from the top to the base of the cliffs which overhangs the landing place, and in the course of its construction, about 10,000 tons of rock have been removed by blasting, at a cost of \$1,200, a good deal still remains to be done to complete this work in the way of building a large stage and derrick and a causeway connecting them with the base of the cliff.

Powder Magazine.—There has been built in a safe and yet convenient location, a magazine of sufficient capacity for all the requirements of the country. It is a fire-proof structure, being built of bricks, and having the roof protected by a covering of zinc. It is also enclosed by a high brick wall. The sum expended on this work has been \$1,815.

Repairs and Improvements on Government Buildings.—Under this head, a sum of \$11,960.24 has been expended for the object contemplated in the appropriation. All the Government buildings have been repaired according to their requirements, and it is believed that they are in a perfectly satisfactory condition, with the exception of those which must be entirely rebuilt. A considerable addition has been made to the storage accommodation for Government material on the Esplanade.

Court House and Prison, Waikuu.—This much needed work has been completed under the plans and supervision of C. H. Lewers, Esq., at a cost of \$2,077.46, to whom the Department desires to express its thanks for the interest which he displayed, and through whose disinterested labors, the building was completed at a much less cost than would have otherwise been required.

Court House and Prison, Kaula.—This appropriation was inserted in the Bill while the work was being carried on, and by an oversight was not withdrawn when it was under the consideration of the Legislature, the work having been actually completed at that time and paid for from the previous appropriation for "Repairs of Public Buildings," with the exception of a small bill of \$27.00.

Wharf at Lahaina.—This work was supervised by Mr. Sheriff Treadway, and is built in a thoroughly substantial manner. It has proved itself a great accommodation and advantage to the commerce of that port, as well as a great convenience to passengers. The amount expended has been \$597 65.

Light House at Lahaina.—With less than the appropriation placed at the disposal of the Department by the last Legislature for this very necessary work, a satisfactory light is now shown at that port from sunset to sunrise, observable at a distance of six miles; at the same time the government building on which it is erected was enlarged and repaired, and made available for storage. It now brings in a rent of \$96.00 per annum. It was planned by Mr. Sheriff Treadway, to whom the department consider themselves much indebted for this and other assistance given by him. Amount expended \$432.44.

Royal Mausoleum.—The plot of ground surrounding the Mausoleum, with great labor, been properly levelled and tastefully laid out, a large number of trees have been planted, which when grown up will make a beautiful appearance. A heavy stone retaining wall has been built on the East and South sides of the enclosure. Handsome iron gates and railings have been ordered from England, at a cost of about \$2,500, which when put up will be highly ornamental. It is much regretted that circumstances, over which the department has no control, have delayed their arrival until the fall of this year. Amount expended \$3,743 04.

Increase of Waterworks.—Owing to the impossibility, after a thorough and exhaustive search, of finding a sufficient supply of pure water which could be taken possession of without infringing on vested rights, no action has been taken in this matter, except a full investigation of the subject and ordering water pipes from England, for which the sum of \$4,637 50 have been transmitted, to enable a purer supply of water to be brought to the existing reservoir. In all the preceding appropriation bills, the necessary charges on the Honolulu Water

Works have been charged to the appropriation for "Wharves and Buoy, Honolulu,"—a most unsatisfactory arrangement, and as the expenses on that account have largely exceeded the sum at the disposal of the Department, it has found itself compelled to make the necessary charges, amounting to \$3,617 39, of the Bureau of Water Works on this item of expenditure.

New Water Pipes.—Pipes of various sizes with the necessary branches, bends, hydrants, taps, &c., for the further extension of the water service, have been ordered from England, and the necessary funds transmitted there, but the same causes which have prevented the other orders from this Government to that country from being filled, up to the present time, have operated in this particular item of the Appropriation Bill, and they will not be received here until the fall of this year. The sum expended has been \$2,300.

Royal Palace.—After considerable difficulty, a convenient and eligible site for the erection of a Palace, of 100 acres in extent, was finally secured at Makiki. The work would have been commenced but for the untoward accident that a gentleman, whose signature is necessary to secure a legal title to a part of the land, is absent from the country. Twenty thousand two hundred and forty-five dollars and fifty cents of the appropriation for this purpose have been expended, \$5,981 in payment for land, and \$309 for furniture, \$10,000 has been sent to Europe for the same purpose, and the remainder has been used in procuring stones and other material.

General Post Office.—From the Report of the Postmaster General, it appears that the "Correspondence" passed through the Honolulu Post Office, for the two years ending March 31st, 1868, amounted to

INTER-ISLAND.	
Foreign Letters received.....	40,515
Foreign Letters forwarded.....	35,620
Hawaiian Letters received.....	48,775
Hawaiian Letters forwarded.....	43,816
Forwarded.....	92,171
FOREIGN.	
Forwarded.....	53,225
Received.....	50,125
	103,351
	280,297

The number of newspapers weekly dispatched from this Post Office is over five thousand, including the journals published in Hawaiian and English.

The accounts of the Bureau show a debit and credit account of \$29,814 17 respectively. Of this sum \$9,824 were paid by the department from the appropriations for salaries and mail carriers, and \$9,841 50 were returned to the credit of the Government. It will therefore be seen that the Post Office has been, as near as possible, self supporting.

IX.—FINANCIAL CONDITION OF THE KINGDOM.

A statement of the finances of the Government may well include a survey of the financial condition of the Kingdom. This can only be ascertained, statistically, by comparing the relative value of imports and exports. The statistics, furnished by the Collector General of Customs, disclose the following result for the year 1866:

Total value of Exports.....	1,394,576.76
Imports.....	1,870,658.94
Excess of value of Exports.....	63,917.82
For the year 1867:	
Total value of Exports.....	1,679,661.87
Imports.....	1,888,806.03
Excess of value of Imports.....	156,146.76

This apparently unfavorable result may be referred to commercial vicissitudes in the latter part of 1866, whose effect was sensibly felt in the early part of 1867, but from which the business of the country is now recovering. Nor should the great change in the sugar manufacture be overlooked, the immediate consequence of which has been to furnish for the California market an article of less value, but produced at less cost. By this change, the sugar manufacture has been made remunerative, and greater production will be stimulated. The Reciprocity Treaty, if ratified, will exert a similar good influence, and little apprehension need be felt that the balance of trade will continue upon the wrong side. But the Legislature may well consider how far reasonable encouragement may be given to such branches of domestic industry as will direct the energies of our native population to profitable pursuits. One thing, however, should be borne in mind in analysing all statistical information relative to the trade of these islands. Their position is peculiar. They may be said to exist not only for themselves, but for the promotion and assistance of the free and unobstructed traffic and commerce of the whole world. They are visited by many vessels, bearing every flag, and whose crews and agents expend large amounts. Of such expenditures no accurate estimate can be formed, although the attempt is regularly made to return the value of "domestic goods furnished as supplies." But it is matter of common knowledge that the amount thus estimated is largely exceeded. Many thousands of dollars are spent in Honolulu every year by transient visitors, or on account of foreign ships. This circumstance explains the accumulation of specie which is constantly going on.

During the past year some great apparent sacrifices of property have been necessary in the liquidation of great estates, which have now passed into stronger hands. But no well-disposed persons will draw from such forced sales an unfavorable opinion of the resources of the country or the stability of property. On the contrary, none can doubt that a period of prosperity and healthy development has now commenced, and that this Kingdom, respected everywhere, will vindicate its established right to independent rank among the nations of the world.

MAY GOD PRESERVE HIS MAJESTY THE KING!

STEPHEN H. PHILLIPS,

Minister of Finance, *ad interim*.

WILL RESUME HER REGULAR TRIPS, APRIL 27,

THE STEAMER



KILAUEA,

Will run during the next quarter as follows

LEAVING HONOLULU

Monday, March 30 Monday, April 20

Monday, April 6 Monday, April 27

Monday, April 13 Monday, May 4

Laying up the Week commencing Monday,

May 11th.

Monday, May 13 Monday, June 8

Monday, May 20 Monday, June 16

Monday, June 1

At 4 1/2 P. M., precisely, touching at

Lahaina,

Kalepapa,

Kaunakakai,

Kailua,

Kaunakakai, and

Mahukona.

---AND LEAVING---

Kaunakakai, Wednesday, about noon,

Kailua, Wednesday evening,

Kaunakakai, Thursday evening.

Arriving back at Honolulu Saturday morning.

Passengers will be landed at Makai's Landing.

On Thursday, June 25th,

She will leave for

Koloa and Waimea, Kauai,

At 4 P. M.,

Arriving back on Saturday, the 27th.

WALKER & ALLEN, Agents.

AND OFFERS INDUCEMENTS TO EXCURSIONISTS